

Message Text

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ACTION NEA-12

INFO OCT-01 EUR-25 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

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FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 8975

INFO AMEMBASY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY JIDDA

AMEMBASSY LONDON

C O N F I D E N T I A L KUWAIT 0895

DEPT PASS TREASURY AND FRB

E.O. 11652: GDS

TAGS: EFIN, KU

SUBJECT: EAL: KUWAIT BANKING AND FINANCIAL DEVELOPMENTS

REF: (A) KUWAIT A-11, FEBRUARY 12, 1974 (B) LONDON 2569 (NOTAL)

SUMMARY: KUWAIT CENTRAL BANK IN PROCESS INSTUTUTING 25 PERCENT
LIQUIDITY REQUIREMENT IN EFFORT LIMIT ABILITY LOCAL BANKS
CONTRIBUTE TO SPECULATIVE BUYING OF LOCAL COMPANY SHARES.
WHILE AGREEING STEP MAKES SENSE, SOME LOCAL BANKERS FEAR THIS
MOVE WILL PREVENT THEM FROM ADEQUATELY SUPPLYING LOCAL BUSINESS
CREDIT REQUIREMENTS OVER NEXT YEAR. MEANWHILE RAPIDLY RISING
GOLD PRICES HAVE LED TO RENEWAL OF RUMORS THAT KUWAIT DINAR TO
BE REVALUED PENDING REVALUATION OFFICIAL PRICE OF GOLD.
END SUMMARY.

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1. KUWAIT CENTRAL BANK CURRENTLY IN PROCESS INSTITUTING 25

PERCENT LIQUIDITY REQUIREMENT IN EFFROT LIMIT LOCAL BANKS' ABILITY CONTRIBUTE TO SPECULATIVE SHARE BUYING WHICH HAD REACHED POTENTIALLY DANGEROUS PROPORTIONS RECENTLY. AS DESCRIBED IN REF A LOCAL PRACTICE HAD DEVELOPED WHEREBY COMPANIES WERE BEING FORMED LARGELY TO PROVIDE VEHICLE FOR LOCAL SPECULATORS TO MANIPULATE PRICES OF COMPANY SHARES. IMPORTANT FEATURE OF PRACTICE WAS BUYING SHARES ON 100 PERCENT MARGIN WITH LOCAL COMMERCIAL BANKS PROVIDING CREDIT. MANY LOCAL BUSINESSMEN WERE MAKING MILLIONS ALMOST OVERNIGHT AND PRACTICE WAS BECOMING WIDESPREAD. MOST RECENT STOCK ISSUE WAS OVERSOLD 2,000 TIMES. ALTHOUGH MANY BUSINESSMEN, BANKERS AND OFFICIALS

WERE BECOMING CONCERNED OVER DAMAGE WHICH COULD RESULT FROM INEVITABLE BUST ARISING FROM UNRESTRAINED SPECULATION, NO ONE WAS WILLING TAKE LEAD IN PUTTING ON BRAKES BECAUSE THEY FEARED MOVE WOULD CAUSE PANIC.

2. CENTRAL BANK HAS NOW TAKEN LEAD BY IMPOSING LIQUIDITY REQUIREMENT. FORMAL ORDER EXPECTED SOON AND BANKS WILL HAVE SIX MONTHS TO IMPLEMENT RULING. BANKS WILL BE REQUIRED TO HAVE ASSETS WORTH AT LEAST 25 PERCENT TOTAL LIABILITIES IN LIQUID FORM. (I.E. AVAILABLE WITHIN ONE MONTH). SEVEN AND A HALF PERCENT (OF TOTAL) MUST BE IN KUWAITI DINARS. BACK-TO-BACK LOANS/ DEPOSITS NOT INCLUDED. CONTRARY TO LOCAL PRESS REPORTS BANKS NOT RPT NOT REQUIRED KEEP MINIMUM DEPOSITS AT CENTRAL BANK. CURRENTLY KUWAITI COMMERCIAL BANKS PROBABLY HAVE \$2.5 BILLION OR MORE IN TOTAL LIABILITIES.

3. BANKERS AGREE THIS MOVE WILL EFFECTIVELY LIMIT AMOUNT OF CREDIT THAT CAN BE OFFERED TO SHARE SPECULATORS. IT COULD ALSO LIMIT GENERAL BUSINESS CREDIT AVAILABLE FROM LOCAL BANKS AND THEREBY ACT IN SMALL WAY TO COMBAT RAMPANT INFLATION. ONE LOCAL BANKER ESTIMATES THAT KUWAITI BUSINESSMEN WILL NEED KD 160 MILLION OVER YEAR (KD1 - \$3.38). ANOTHER NOTES THAT 7.5 PERCENT KD REQUIREMENT MAY BE RELATED TO KD DEPOSITS OUTSIDE KUWAIT. HE STATED SOME SUCH DEPOSITS NOW EXIST IN EUROPE INCLUDING IN BRANCHES OF AMERICAN BANKS THERE.

4. REGARDING RECENT REPORTS FROM LONDON (REF B, NOTAL) THAT KUWAITIS BUYING STERLING IN LARGE AMOUNTS, LOCAL BANKERS HAVE CONFIDENTIAL

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REACTED WITH SKEPTICISM, ALTHOUGH THEY WOULD NOT NECESSARILY KNOW WHAT GOK IS DOING IN LONDON. THEY SIMPLY NOTE THAT THEY ARE UNAWARE OF ANY UNUSUAL MOVEMENTS INTO OR OUT OF CURRENCIES. ON OTHER HAND DOLLAR HAS BEEN SLUGGISH HERE PAST FEW DAYS, AND THERE ARE REPORTS OF SOME MOVEMENT BY PRIVATE KUWAITIS INTO GOLD. SOME LARGE MONEY CHANGERS HERE PREDICT GOLD PRICE OF \$200-\$300 PER OUNCE BY THIS TIME NEXT YEAR.

5. IN THAT REGARD AT LEAST SOME LOCAL OBSERVERS EXPECT THAT BEFORE LONG OFFICIAL GOLD PRICE WILL BE CHANGED AND IF THAT HAPPENS THEY BELIEVE GOK WILL REVALUE DINAR BY ALTERING FORMULA OF FOREIGN CURRENCIES WHICH DETERMINES DAILY DINAR RATES OF EXCHANGE. OTHERS ARE SKEPTICAL, HOWEVER, SINCE GOK HAS TRADITIONALLY PREFERRED TO AVOID REVALUATION.

6. COMMENT: SHARE SPECULATION RELATED TO GENERAL MONETARY INSTABILITY IN SENSE THAT INVESTORS PREFER LOCAL SPECULATION TO ACCEPTING FOREIGN EXCHANGE RISK THAT GOES WITH INVESTMENT ABROAD. AFTER RELATIVELY QUIET PERIOD SINCE LAST SUMMER, IN KUWAIT AT LEAST, WE SENSE INCREASING NERVOUSNESS AGAIN. WILD GOLD PRICES AND SEEMINGLY ENDLESS INFLATION TOGETHER WITH BELIEF THAT INTERNATIONAL SOLUTIONS UNLIKELY IN NEAR FUTURE APPEAR TO BE CAUSING CONCERN IN MARKET PLACE.

7. USUALLY MARKET MORE NERVOUS THAN GOK, ITSELF, AND AS INDICATED ABOVE GOVERNMENT TRYING TO KEEP ORDER. MOREOVER, IN PROCESS CENTRAL BANK GAINING IN POWER AND PRESTIGE WHICH ITSELF COULD BE SIGNIFICANT IN ENHANCING ROLE OF THAT BODY. BUT WE ANTICIPATED THAT BEFORE LONG GOK PROBABLY WILL SHOW INCREASING CONCERN OVER GENERAL INTERNATIONAL ECONOMIC AND MONETARY SITUATION. THIS IN TURN, COULD HAVE AN IMPACT ON GOK'S ATTITUDES TOWARD OIL PRODUCTION LEVELS AND VARIOUS SCHEMES PUT FORWARD TO PROTECT ITS INVESTMENTS.
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